U.S. ARMY MATERIEL COMMAND

Implementing Purchasing & Supply Management

Ann Budd

"Need To Be Faster, More Agile, Less Bureaucratic – Need To Fight This Everyday

Agenda

- What is PSM and Why Change?
- What are AMC Goals for PSM?
- How will AMC Implement PSM?
- How does PSM integrate with other AMC initiatives?
- How does BRAC impact PSM pilot?
- Backup Data - Charts

What is PSM?

- Strategic, enterprise wide multi-functional approach to managing suppl
- Reduces total ownerships costs, improves quality and performance
- Manages Risk and improves reliability

Why Change?

ACM COMMANDING GENERAL DIRECTIVE

Need to be faster, more agile, less bureaucratic.
Need to fight this everyday.

OMB Directive – 20 May 2005

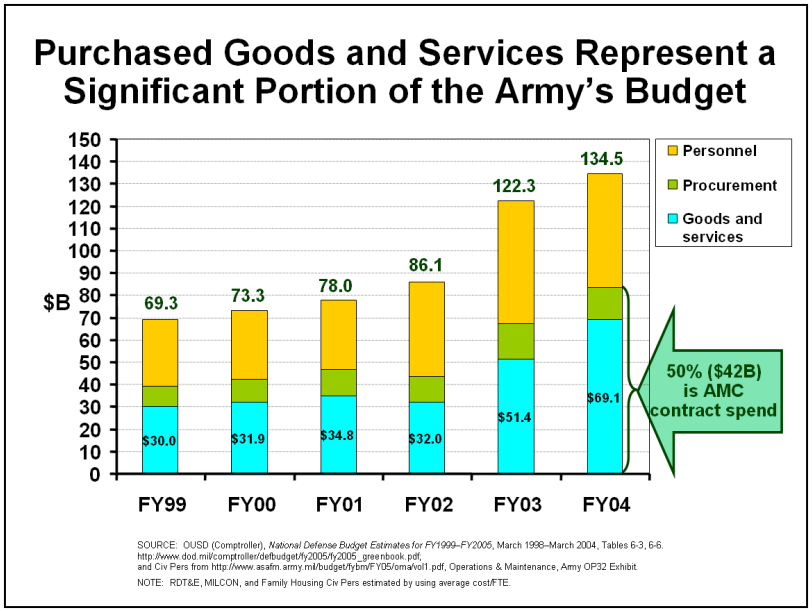
Federal Agencies need to leverage spending to the Maximum extend possible through strategic sourcing.

RAND Federally Funded Research & Development Center

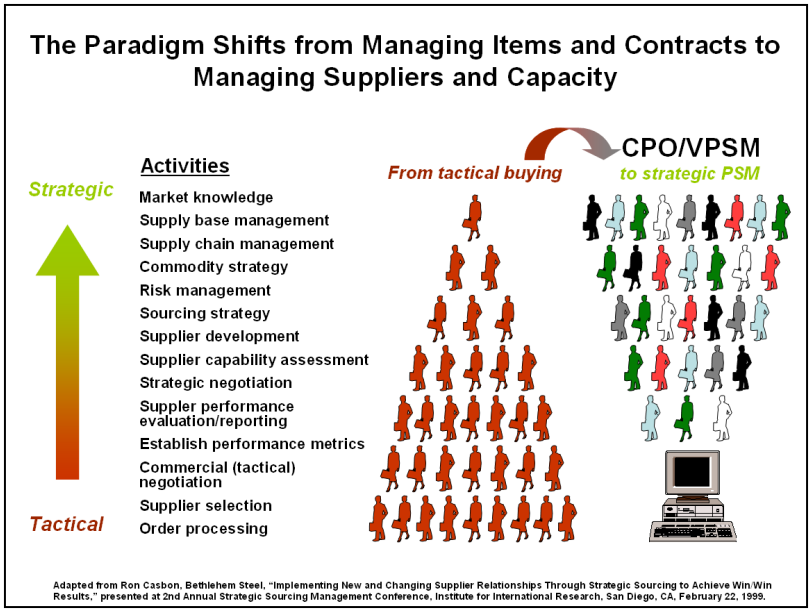
Through PSM practices, enterprises report that they have improved performance, reduced total costs and limited their risks.

Why Change?
How PSM Impacts AMC

AMC spend is 50% of total Army – PSM leverages AMC spend



PSM – strategic enterprise wide approach that *manages* entire supply chain


The Paradigm Shifts from Managing Items and Contracts to Managing Suppliers and Capacity
Strategic
Tactical
Activities
Market knowledge
Supply base management
Supply chain management
Commodity strategy
Risk management
Sourcing strategy
Supplier development
Supplier capability assessment
Strategic negotiation
Suppler performance evaluation/reporting
Establish performance metrics
Commercial (tactical) negotiation
Supplier selection
Order processing
From tactical buying
CPO/VPSM
to strategic PSM
Adapted from Ron Casbon, Bethlehem Steel, "Implementing New and Changing Supplier Relationships Through Strategic Sourcing to Achieve Win/Win Results," presented at 2nd Annual Strategic Sourcing Management Conference, Institute for International Research, San Diego, CA, February 22, 1999.

Readiness
Supplier capacity
Buying power

Increase

Cost
Wait time
inefficiency

Decrease

AMC Vision/Strategy for PSM

VISION :

Be the sustainment supplier of choice for worldwide weapons systems

parts and equipment support

MISSION:

Improve readiness through PSM transformation

PSM Strategy:

Build long-term collaborative relationships with suppliers

- AMCOM pilot - AWCF secondary items

Integrate purchasing and supply functions across the enterprise

Develop strategic focus to supply chain management

Develop PSM as a core competency across AMC

Increase quality and performance

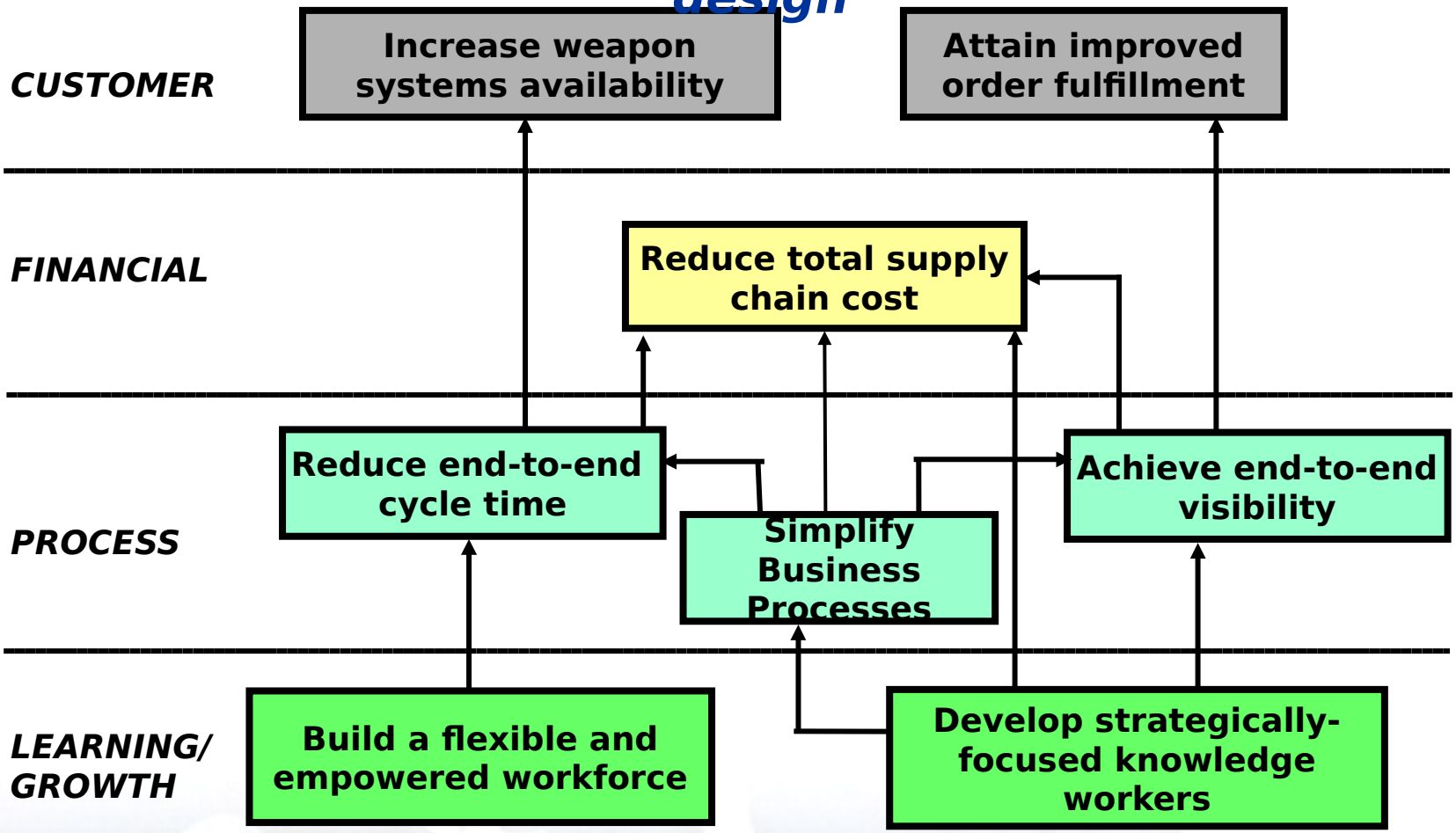
Decrease delivery time, ALT and total costs

Expand PSM best practices across AMC

Centralized management
Decentralized execution

What are AMC's Goals for PSM?

Quantifiable goals to guide the PSM process design



How will AMC Implement PSM?

ESTABLISH A PILOT PROGRAM AT AMCOM
Rotor Blades and drive train mechanisms

- Establish a Purchasing and Supply Management Cell at HQ's
  - Oversee PSM pilots
  - Develop / provide PSM training and information
  - Develop AMC wide implementation plan

- Launch Pilot at AMCOM
  - Cross functional teams will test 3 echelons of PSM
    - Supply management
    - Commodity teams
    - Joint Logistics support

- Proliferate PSM across AMC upon success of pilot

- Consider BRAC impacts throughout pilot implementation

Phased and Iterative PSM Implementation

1QFY06 — 2QFY07

1

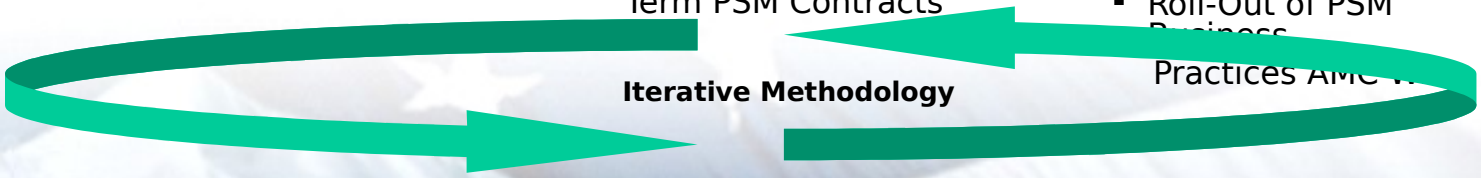
- Implementation Plan Developed and Approved
- Formed HQ IPT and PSM Cell
- Form Pilot Program IPT at AMCOM
- Review “As-Is” Base-line. Determine “To-Be” Processes
- Document Business Rules & Instructions
- Document Objectives, Metrics and Baselines

2 3 4 5

- Perform Market and Spend Analysis
- Select Commodity, Supplier and Joint PSM Pilot Candidate Items
- Business Case Development & Management Reviews
- Workforce Training, Organizational and Job Role Adjustments
- Negotiate Flexible Long-Term PSM Contracts

6 7 8

- Collaborative IT Design and Deployment
- Daily Use of “To-Be” Processes
- Business Rules Adjustments As-Required
- Metrics Monitoring and Reporting
- Evaluation of Pilot Program
- Formation of AMC-wide Commodity Councils
- Roll-Out of PSM Business Practices AMC-wi



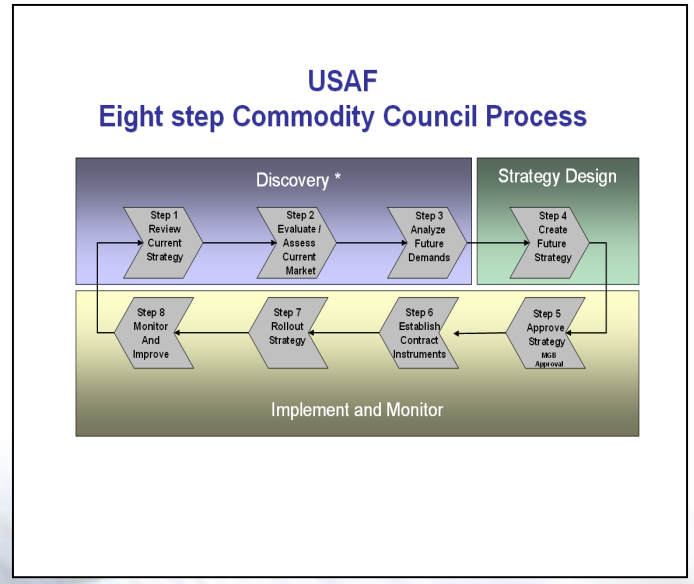
Iterative Methodology

What Processes will the PSM Pilot use?

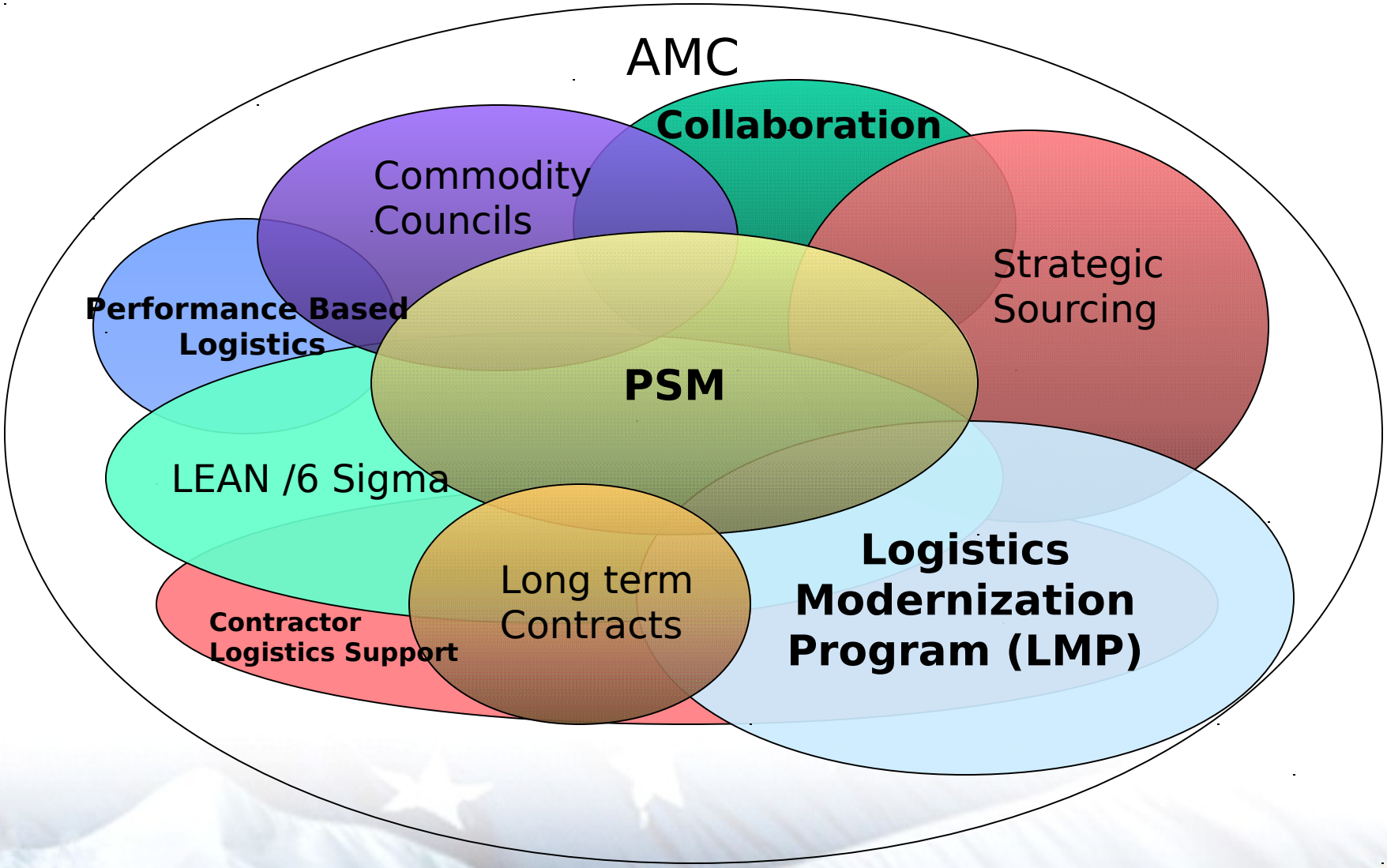
8 step process

1. PSM PLAN
2. IPT & AS-IS
3. TO-BE RULES & METRICS
4. EVAL & ASSESS MARKET
5. STRATEGY APPROVAL
6. CONDUCT PSM PILOT
7. MONITOR AND IMPROVE
8. PSM ROLL OUT

Follows a proven and reliable process
USAF and industry approach


USAF
Eight step Commodity Council Process
Discovery *
Strategy Design
Step 1 Review Current Strategy
Step 2 Evaluate / Assess Current Market
Step 3 Analyze Future Demands
Step 4 Create Future Strategy
Step 5 Approve Strategy
Step 6 Establish Contract Instruments
Step 7 Rollout Strategy
Step 8 Monitor And Improve
Implement and Monitor

How does PSM integrate with Ongoing AMC Initiatives?



How will BRAC impact AMC PSM Pilot?
Mitigates Readiness Risk
Consolidates DLR Buying Function

SERVICES RETAIN

Logistics Support Processes
Service Logistics Systems
DLR Requirements Determination
Item mgmt responsibility
DLR Repair Management
Title 10 Responsibilities
-- Achieving readiness levels
-- 50/50 compliance
DLR Technical Support
DLR Reliability Engineering
DLR Deficiency Resolution
Engineering Release Authority
Service Stockage Policy

DLR Purchasing Responsibility
Service DLR "Buy" Cost Authority
Contract Development Responsibility
Service DLR Buy Support Personnel
Remaining consumable items

Transfer to
DLA

Pilot Focus on AWCF DLRs

Questions

?

BACKUP CHARTS

Summary of FY04 DD350 Transactions Reveals Complexity of Army Materiel Command Purchases

- **Prospective target areas**
  - **$42 B in purchases**
  - **32 different purchase office codes**
  - **26,092 different contracts**
  - **10,229 different contractor I.D. codes**
  - **9,022 different parent company I.D. codes**
  - **1,184 different Federal Supply Class (FSC) codes**
- **Prospective challenges**

	% of $s	% of contracts
– Sole source contracts	47	36
– Three or more bids	33	25
– Small business contracts	13	59
– Set aside contracts	3	9
– Purchase orders	1	60

SOURCE: FY04 DoD-wide DD350 data; Army Materiel Command.

What an Analysis Reveals

Having Many Contracts in the Same FSC May Indicate Prospective Targe for Reducing Transaction Costs

Federal Supply Class	# Ctrx	# Ctr ID codes	% Ctrx sole srce	$s M	% Ctrx small biz	# PO cds
Guns, through 30 mm	394	190	58	$944	55	10

Having Many Dollars in the Same Federal Supply Class May Indicate Prospective Targets for Leveraging Spend

Federal Supply Class	$s M	# Ctr ID codes	% $s sole srce	# Ctrx	% $s small biz	# PO cds
Engineering Tech Services	$1,220	261	19	338	29	22

Having the Same Supplier* with Multiple Contracts May Indicate Prospective Leverage Opportunities

Parent company name	# Ctrx	# sole source ctrx	$s M	% $ sole source	# Ctr ID cds	# PO cds
RAYTHEON COMPANY	259	180	$1,948	57	38	15